



## Final Transcript

### **HUD – US DEPT OF HOUSE & URBAN DEVELOPMENT: Understanding Indirect Cost**

February 2, 2016/2:00 p.m. EST

#### **SPEAKERS**

Robin Booth

#### **PRESENTATION**

Moderator      Ladies and gentlemen, thank you for standing by and welcome to Understanding the Indirect Cost Rate conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. Instructions will be given at that time. (Operator instructions.) As a reminder, this conference is being recorded.

I would now like to turn the conference over to our host, Miss Robin Booth. Please go ahead.

Robin              Good afternoon and welcome to the Understanding the Indirect Cost Rates and the Cost Allocation Plan. Just to review some of our webinar logistics and to reiterate what the moderator already suggested, this is being recorded and will be available along with the actual presentation materials at the [www.hud.gov/housingcounseling](http://www.hud.gov/housingcounseling) website under webinar archives. So, please feel free to access that information and, if necessary, share those materials with other people who may not have been able to participate.

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**Host: Kristen Villavazo**

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During this webinar, we do ask that your lines remain muted throughout the process, and we will ask throughout various times during the presentation, I will give you the opportunity to ask questions live. I will talk about how you can ask questions as well in a later slide during this logistics.

So, we will definitely take questions both online, here. As indicated here, you should have a box where you can actually text the question, a panel during the webinar. I do have staff here that will be able to respond to your question. If they can't respond during the actual panel, or during the webinar, then I will either take the question live at some point during this presentation or, if you have a question subsequent to this presentation, you can send it to [housing.counseling@hud.gov](mailto:housing.counseling@hud.gov). Please include in the subject line, Understanding the Indirect Cost Rate.

Once again, it is being recorded. Please allow 2 business days, 48 hours, for the recording to be put onto the website, and the training materials will be there as well.

At the conclusion of the training, you will be asked to complete a brief survey and we'd really, really appreciate if you could complete that survey. It provides invaluable information that I know HUD uses, and we work with them to develop training materials and training webinars that really add value and clarification on issues concerning this HUD Housing Counseling grant. So, we appreciate all your comments on it so please, complete the survey and provide any comments.

After the webinar, you will receive an e-mail that says thank you for attending. This is, in fact, your certificate. You will not get an additional correspondence or e-mail. There will not be a separate document. Please print or maintain the actual e-mail which says thank you for attending and that can be used to serve as your certificate for the training.

With that said, we'll start the presentation on Understanding the Indirect Cost Rates. One of the big challenges with understanding the indirect cost rate is that for a lot of us it's not consistent with, generally, how you maintain your accounting system, unless, in fact, you are doing business with the Federal Government, either as a grantee or as a contractor.

For a lot of you who may have never had a federal award or a federal grant, this is new territory. This is specific and indicative to federal government. So, it's not something, often, that you see in the private

sector or that you have to use in your budgeting and reporting information for non-federal government funds. However, for any federal awards that are subject to the OMB Uniform Circulars and other federal regulations, there is a probability or a likelihood that at one point or another, you're going to have to confront the whole indirect cost rate.

Our goal today is to really give you sufficient information to understand how that rate is computed and how it relates to the whole 10% de minimis rate that became available, or allowable under the OMB Omni Circular that became effective on December 26, 2014.

My name is Robin Booth. I am the facilitator. Our company, Booth Management Consulting, LLC, we are a contractor and providing quality technical assistance. We perform the financial and administrative reviews. We prepare and conduct action plans as well as technical assistance on behalf of the Housing Counseling Grant. As a part of those services, we also provide training.

From that perspective, we're oftentimes in a position where we're looking at those issues surrounding your indirect cost rate, or if you have a negotiated indirect cost rate agreement, we're also the auditor that will, ultimately, look at that information as well.

Today, I'm going to go over the basic regulations, some specific information you need to know as it relates to the Subpart E Cost Principles. That part deals with all—really, that's the core of the whole concept of the indirect cost rate it comes from Subpart E on the cost principles.

We want to make sure you have an understanding of the terms allowable, allocable, and reasonable. These terms are terms that are generic to the Federal Government. These are not terms you're used to hearing when you're doing financial statements, necessarily, just financial reporting and/or in preparation of your Form 990 non-profit tax returns or any those things. That's why we spend some time making sure you understand the terms allocable, allowable, and reasonable and how they relate to how you are, in fact, charging costs and the indirect cost rate.

We'll talk about direct versus indirect and, hopefully—let me just say this. Direct costs are not indirect costs. They are two totally separate things. A cost that is considered direct in your budget or your financials cannot also be indirect. It's one or the other. And, when we talk about indirect, we're

then talking about two types of costs; facilities and/or administration. Sometimes you all refer to it as G&A and still some non-profits might say overhead.

But, one big concept that, just clarify off the top, is when we're talking about indirect costs we are not talking about direct. We're talking about those costs that you cannot charge directly to a grant. So, they fall into the pool of those costs that you use to maintain the organization, to manage the organization and the grant, but they're not direct costs that you can charge to the grant.

We'll go over the types of indirect cost rates, won't spend a lot of time on this because you're in one or two situations if you're under this particular grant, primarily. You either have a negotiated indirect cost rate agreement, which is an agreement where another cognizant agency has negotiated your indirect rates, or you're in that pool that may be interested in taking advantage of that 10% de minimis rate.

And, when we talk about those two rates, they'll be the focus of our conversation of indirect cost rates because it can become very extensive and complex when you're talking about indirect cost rates. So, we'll try to keep it focused on those indirect cost rates that primarily impact this HUD Housing Counseling Grant.

We'll differentiate between that indirect cost rate versus a cost allocation plan. They're totally different. In addition, only state and local organizations or state and local governments can submit a cost allocation plan. Unfortunately, during some of our financial and administrative reviews, we've seen organizations, non-profit organizations that were not state or local attempt to use a cost allocation plan. Under this grant and under OMB, that is reserved for state and local.

However, and I don't want to confuse you, you can have an indirect cost rate that uses a certain methodology that's consistent with the cost allocation plan. But, generally, organizations that use cost allocation plans are knowledgeable about what the difference is between a cost allocation plan and indirect cost rate. So, if you're not a state or local organization, you're focused in on an indirect cost rate.

As I said, we're going to go over implementing the 10% de minimis rate. How do you do that? What does that mean? How does that look when you're preparing your budget and you're submitting your monthly or your

quarterly request for reimbursement? Then, we'll go over some frequently asked questions as it relates to the indirect cost rate.

Of course, we have to start with the regulation. And, once again, I'm going to refer you to the Omni Super Circular, Subpart E, specifically. But, if you go to this website it just makes it easy because they've indexed it so easy for you to be able to identify the specific areas you need to address.

So, we strongly encourage you to make this one of your bookmarks on your computer and make sure you have access to it, especially if you're either under a NICRA negotiated indirect cost rate agreement, or you're considering charging the indirect cost rate using the 10% de minimis allowance.

These are the cost principles. Actually, this is straight from the Omni Circular, and it goes over the various sections of the cost principles. If you look, it gives you a lot of what I'll talk about today. I tried to break down some of the areas to discuss here more in layman terms so that they're not as—appear to be as complicated. But this is the Subpart E Cost Principles which is the core and the base for everything relevant to indirect cost rates.

So, what am I talking about? We talk about direct cost—we talk about component of cost which is one of the first sections of the Subpart E. And, why this is important is because when you're preparing budget or if you're choosing to implement the 10% de minimis rate, you have to understand what is considered a direct cost and then what is considered an indirect cost.

As I said, a cost can't be both. It's either direct or indirect. Now, what happens is that sometimes certain costs are allocated, I'll take rent for instance, in some instances where rent—you have a large facility, and maybe there are certain areas that are specifically utilized by a particular grant, and you want to charge them direct rent; then, you're getting into an allocation of that rent expense. That expense that you can charge as direct, so you've come up with some methodology to determine how much that is direct.

Let's say you have 10,000 square feet of office space and it's clear that 5,000 square feet of that is all just for HUD Housing Counseling grant, that everybody in there is a counselor, they're doing direct work for HUD

Housing Counseling. You're saying to HUD that pretty much because with these costs are being charged directly for your grant, this is directly for the performance of the work, that we want 5,000 of the 10,000 square feet of rent to be included as direct cost.

Well, then that means that you have to have an allocation methodology. You would basically say, based on that square footage that, say, 5,000 of the 10,000 is really 50% of my total rent cost, so when we do our costs we can charge 50% of that rent as direct cost but the other 50% is going to remain an indirect cost, and that is going to be allocated over all the other grants, and all the other funding sources who indirectly receive the benefits from that utility.

But even in that scenario, that whole 10,000 square feet, the cost for that whole 10,000 square feet could not be charged as just direct or just indirect. You had to allocate it and be able to identify what part was direct and what part was indirect. That is a key component of the whole concept of indirect.

First, you have to sort out direct cost. You have to say what costs are direct, not just to the HUD grant but to any grant, because what you don't want to happen—and this is one of the big areas, we see this a lot too with budgets, and I'll give you an example that goes to the analysis, but if the cost is a direct cost to another grant but you've included it as an indirect cost, then that means that that cost is going to be—that every other grant is going to be charged some component or some fair share of that cost because that's what an indirect cost rate does.

It basically says that any costs that aren't direct, we're going to put them all together in a pool, and then when we put that cost together in a pool, we've got to figure out how we allocate the fair share of that cost to each of the grants because we're trying to figure out what's the real cost of this grant.

It's easy to take the direct cost. The first thing we do is we're going to say okay, for all of my grants, what's my direct cost. If it's a direct cost to any grant, then it needs to be allocated as direct. It should not remain in the indirect cost pool. Because what happened with those indirect costs is we grouped them all together and then based on the indirect cost rate we determined a percentage and we're going to give each grant its fair share of that indirect cost.

So, it's critical, and you have to keep this in mind, even when using the 10% de minimis rate, that you're only—you've separated direct cost first. That's the first thing you do. Everything that's left, you apply—it goes into that indirect cost pool which basically we're going to figure out how to allocate a fair share to all the other grants. Then, we're going to subtract out any credit.

What's a credit? A credit is a—and I'll go over credit in a minute, but the direct cost, as we said, are those costs that can be identified specifically with a particular final cost objective, and a cost objective is another word for a grant or a funding source. So, some of the ones that we're most familiar with, especially under this grant, is travel; administrative salary if they've been included as direct, meaning you've met all the criteria; supplies; materials; and travel.

So, if you have—let's take administrative. And, this is how you can have some problems. If you've requested and have been approved for administrative salaries or some element, maybe you're executive director, and you say, you know what, they spend about 10 hours a week on this, so we're going to get approval and show that they're doing 10 hours of direct work.

Well, if you've taken their salary, and you've looked at their hourly rate, and you're charging HUD 10%, or you're charging them 10 hours a week for the grant, you have to make sure that you've subtracted those costs from all the other administrative salaries and not included them in the indirect cost pool. Because if you've included those administrative salaries as direct salaries, then you have to make sure that you've subtracted out that portion of salaries that you're charging as direct from your indirect pool, otherwise, you're double counting.

One of the biggest challenges we see with this HUD, even on applying the 10% de minimis rate is that some of you are trying to apply the rate to costs that should have been or are included in your indirect costs. I've seen the cost attempt to be charged to equipment and this wasn't equipment just for HUD, this was equipment, I guess, for the office, which is an administrative expense, and that you included it in your budget, and then you wanted to also take the 10% de minimis rate.

Well, let's use a hypothetical situation. If your total budget was \$10,000 and you had direct salaries of \$8,000, and then equipment for \$2,000, when you compute that 10% de minimis rate, you can only apply it to the

\$8,000 because that's what's considered the modified total direct cost. You could not apply it to the entire \$10,000 because that \$2,000 that was equipment is, in fact, not considered modified total direct cost.

So, it's easy to apply the de minimis rate if it's basically salaries or clear-cut direct cost. What you need to be cognizant of is that if you're going to use that rate, you can only apply it to modified total direct costs. You cannot apply it to costs that are not considered direct costs even if it's a budgetary line item.

What are indirect costs? We talked about this. Indirect costs are those that have been incurred for common or joint objectives, but they're not direct to one particular grant or one particular project. And, OMB has defined the indirect cost to be facilities and administration. So, OMB, and this section, Section 200.414 has basically said these are your indirect cost pools.

You have facilities, which really has to do with the overhead associated with maintaining your buildings, as you can see, equipment. I just talked to you about why equipment in the scenario I just gave you, why equipment had to be treated as an indirect cost. That's why you couldn't apply that 10% rate. It includes interest, capital improvement, operations and maintenance expense.

So, if you are including in your budget to HUD any of these types of expenses, they have to be included in your indirect costs. And, if you're applying the 10% indirect cost rate and you've included any of these types of expenses in your budget, when you apply that 10%, you cannot apply it to those costs. You would have to subtract them out and only apply it to modified total direct cost.

Administration, that's the other acceptable pool of indirect cost. That's your general and administration expenses. That's for running your organization. So, it's kind of like anything that's not really falling into facilities.

Those two are your indirect costs. As I said, when you think direct versus indirect, after you've sorted out what's a direct cost, then everything indirect should fit into one of these two categories, either facilities or administration.



What are credits? In general accounting, a lot of times if we get a refund or if we get a discount, or we get allowances, oftentimes you'll see on your statement of activities, which is synonymous to your profit and loss statement, that you're treated as income. Well, under OMB and under the cost principles, any refunds have to be charged back to the original cost that was incurred.

Let's say you took some travel and travel was one of the costs on your approved budget. When you initially booked the hotel, you booked at a rate, you charged it at a certain rate and for whatever reasons you were able to get another rate, and there was a credit to that hotel. That credit has got to be charged back to travel where it was originally expensed from. So, whatever account in your chart of accounts that you originally took that cost as a deduction from, or as an expense from, you then have to offset that credit.

Think about it. If you're doing the indirect cost rate and everything is based on cost, then the government wants its fair share of whatever monies you got back because you never really spent them. So, they want the net effect.

You would no longer treat credits as a refund in the income account, you would have to—or the net assets account, the temporarily restricted net assets or unrestricted, you wouldn't treat it as support or revenue, you would treat it—you would then offset it to the expense account that you originally took—that you originally charged that cost to. And, that's a different principle from a lot of what you see in just financial reporting.

So, these cost principles, and unless your organization anticipates or is negotiating the indirect cost rate agreement and you have to—or you charge an indirect cost rate consistently and consistently do federal awards, the biggest things you have to understand about these cost principles is what you can't charge to this grant.

The biggest principle, generally, that impacts this grant is the principle of what's allowable. The second would be what's allocable, and also, what's reasonable. But these are the core principles that we're looking at when we look at your costs. This is when, even during when we perform financial and administrative reviews, and we may look at your direct, your personnel costs, and we may look at the salary.

For instance, we've had executive directors that make \$70 an hour, and that's fine, but we have to ask if that's reasonable in conjunction with those costs being charged to this grant as direct personnel costs.

There are some limitations. There are specific limitations in the OMB on how much consultants can charge. We've had instances where some parents, they had lawyers and as a part of it their rates were, they exceeded the allowable rates under the ceilings established in the OMB. So, from that end and anything that's above the allowable rate, that would be what we call unallowable.

So, for what you need to understand is to just make sure that when you're looking at putting together your budgets, and you're determining how you're going to utilize the funds that you're awarded, that you take into consideration are these costs allowable, reasonable, and allocable.

To be allowable, you've got to be reasonable and allocable. To be reasonable, they've got to be allocable and allowable. To be allocable, they have to be reasonable and allowable. So, these principles kind of work hand and glove together. It's not one or the other; it's all of them combined.

If there's any limitation, I just talked about one limitation on the consulting fees that can be charged, the rates that can be charged for consultants, and that's within the award. If there are any limitations that are spelled out in the grant agreement or, primarily in the grant agreement or the NOFA, then you need to make sure that your costs are consistent with those—they don't include anything that was excluded. They have to be consistent with policies and procedures.

A primary example is travel. If you have a travel policy, and you say employees have to charge actual travel up to per diem, then we expect that to be your consistent treatment of all travel-related expenses. So, if you have travel under this grant, and the employee is using per diem, then we would suggest that you're not using—it's not consistent application of your travel policy because your travel policy said actual not to exceed per diem.

That's an example of it being consistent with your policies and procedures. Just because it's a federal award and you can charge per diem, if your policy says that it's the lower of, then you should have charged and applied those same policies and procedures. They have to be

consistently treated. We look to make sure that your policies and your whole concepts or principles are treated consistently through the organization.

They have to be consistent with your unaccepted accounting principles. So, we're looking at expense recognition. We're looking at if you're reporting on the accrual versus the cash basis of accounting. So, those also determine allowable.

Most importantly, and this for us is most important when we conduct financial and administrative reviews, they have to be adequate documented. It's not what we expect; it's what we inspect. So, if you do not have it documented—and I'm sure you all have heard this over and over again in various scenarios; if you do not have adequate documentation which includes proper authorization, proper approval, proper supervision, proper oversight, then even though a cost may be allowable, when we conduct financial and administrative reviews it may be a finding because it's not adequately supported. You have to have support in your files to help us make a determination of whether it's allowable or not.

Now, under Section 200.420, certain costs are expressly unallowable. So, no matter what you say or what justification you have, we will tell you that under the OMB these are not allowable costs. And, really, within your accounting system, these costs should be pooled together and taken out of your other indirect costs.

If you have a NICRA, generally, a negotiated indirect cost rate agreement—generally, you're accounting system is designed to clearly segregate what's called unallowable costs from allowable costs.

But, if you're not and you're wanting to apply this 10% de minimis rate, you have to understand that any of these costs, even if you're including them as direct costs and maybe—it's not HUD grant, because I know HUD grant doesn't allow these costs, but if you have another federal award, if these costs are included in your budget as direct costs, you cannot apply them, they cannot be applied to that 10% de minimis rate.

You just need to be cognizant that these are not acceptable or not allowable costs under the cost principles.

We have to ask the question, are they allocable? So, that's really saying are they allocable to this particular HUD Housing Counseling grant? We have found situations where, especially with labor categories, somebody's salary was charged 100% to another grant that was a cost-reimbursement type grant, and some portions of that person's salary were still charged to another HUD grant.

Well, we would say, okay, first of all, they've used up all of their salary so you charged more than that person is being paid, and as you all know, this is a cost-reimbursement grant so it's based on actual cost incurred, that you can't charge more than somebody's being paid.

Then, we're going to ask the question well, okay, should they have charged any of that person's time to HUD? Did that person perform direct counseling or did they perform administrative services.

And then, for adequate documentation, we're going to say okay, we need to see the time sheets, we need to see the personal activity reporting, we'll look at the payroll registers, and we'll look at the HR file to verify that one, this person did perform the work that they had, they did have the qualifications to perform it to be allocable to the HUD grant. So, that's what allocable means.

If you notice the note at the bottom, shifting of costs between awards to overcome funding deficiencies is not allowed. Because of how the grant has been awarded over the last two cycles where you've had grants overlapping a period of performances, the work has to be performed within the period of performance for you to charge it to that particular grant.

If you had an FY '14 grant, which ended—and I get this—forgive me if I get the dates all confused, but October 2016, no—I'm getting them all confused now. It ended of June of 2016, but you had your FY '15 grant that just started, it doesn't—but you ran out of money for your FY '14 grant, you cannot just shift costs between those two grants because one grant happens to have more money. The reality is the work has to be performed and the actual time has to be charged in the period of performance of that grant.

It could very well be that because the period of performance overlaps that you could use the fact that you ran out of FY '14 funding for FY '15 the funding came aboard, you realistically could use it if the work was

performed within the period of performance for that grant. That is the test to determine if it was allocable to that grant for that particular period of performance.

Is the cost reasonable? A cost is reasonable if in its nature or amount does not exceed that which would be incurred by a prudent person. So, needless to say, while there's some subjectivity to the cost of reasonableness, a lot of times we use benchmarks. We'll look at the reasonableness of salaries; we may compare it to the SCA or the Department of Labor Wages and Determinations to say, okay, is that person's salary or rate consistent or reasonable in connection with the work being performed. Or, if it's a consultant, is it within the rates limitations as established in the grant.

So, if it's travel, did you take first class or should it have been the lowest. Or did you, if it's a hotel, same kind of thing. So, we have benchmarks to determine what's reasonable, but there is some subjectivity to it. So, the reality is, if you believe a cost is reasonable, then you have to document it within your file to justify why that cost is reasonable if it appears to exceed what would be normal in a prudent situation.

Something to take into consideration when you're talking about reasonable is the effect on program dollars. If we have—if you're proposing rates for one counselor that, ultimately, would minimize or at least diminish your chance of performing the work plan that you've included with the grant because that particular person's rate is that excessive, even though they may be highly qualified and highly experienced, your HUD PLC may say that's just not a reasonable rate. You can get the same kind of services that we need by someone performed at a much more reasonable rate, and we can get more outcome, more performance under of that rate.

That's when they're looking at the effect on program dollars. Does it make sense under the circumstances? Is this person only charging this rate to the HUD grant, so is this the established practices or did you bump the rate up or change the rate for this particular person when you're charging it to the HUD grant?

A lot of times I'll use labor or personnel costs in my examples because, under this grant that's, I would say, 90% of how the budgets are prepared. So, I try to use as many examples related to personnel as possible.

Now, with that, we get into the indirect cost rate. What is this whole rate? It's simply a way or a device for allocating a fair share of the administrative cost or the administrative burden to all of the other grants.

What the government has basically said is we recognize that there are certain indirect costs, meaning they're not direct costs to the grant, but these are indirect costs that you earned just to run your organization, and that in order for you to run your organization and be able to provide us the service you need, the government recognizes it needs to pay a certain share of those.

What it won't do is pay an unfair share or overburden a government grant versus any other grants, whether it's another federal government agency, it doesn't matter.

The concept of this whole rate is that we all, you all help all of these grants, and you provide services to all of these grants, and you've already identified the direct cost for all of these grants, so all those other costs that are remaining there, let's put them all together, let's come up with a total, and then we're going to use a rate that we're going to compute and multiply it by that, so everybody has to pay their fair share based on that rate.

If you have three grants, one grant for \$10,000—trying to keep my math easy, let's say two grants; one grant for \$10,000, one grant for \$5,000 and you have \$3,000 of indirect costs, and we've come up with the indirect cost rate to be 10%, then I'm going to take that 10% and I'm going to multiply—I'm going to use that same rate and multiply 10% times the \$10,000 of direct costs for one grant, and then 10% by the other one, and all the other grants until I've used up that \$3,000 of indirect costs.

So, that means that when it's all said and done, if it's five grants, then each grant is going to get its share of that \$3,000. So, for one grant based on that 10% it might be \$300, based on their modified total direct cost it might be \$300, another grant it might have been a \$50,000 grant so when I do that 10% it's going to—let me make it \$25,000 so then I do that 10%, it's going to be like \$2,500. So, those two grants are going to show how I took that indirect cost and then I gave each grant their fair share and, ultimately, I spread out that \$3,000 between those particular grants.

That's all it's doing, is saying once you get that indirect cost amount, that pool of dollars that you can't assign to direct, that rate is just going to allocate those dollars to each grant. That's all it does.

The break computation is very simple. It's a pool of costs whether it's your facilities cost, so you've grouped them all together, and you say these are all of my facilities cost; or, it's your G&A cost over whatever the agreed upon base is. Most times the base is your modified total direct cost, and then you come up with your rate. That rate becomes what you apply to allocate those indirect costs to each contract.

So, when you do your cost composition, you now have your direct costs, plus your indirect costs, that's going to tell you the total cost to run that program. If you just look at the rent cost, you're not looking at what that program's burden really is to your organization for the indirect cost, and that's your composition of cost.

So, I just gave an example; this is a basic example. Let's say you're a small organization. You didn't separate facilities and administration. Basically, after you put all of your—assigned all of your direct costs, you had, like, \$10,000 of indirect costs that you could not assign directly to a project or grant. Then, when we look at your distribution base, which we're looking at your direct cost of your salaries and benefits, we came up with the basic rate of 10%, that being your 10% rate.

You would then apply that 10% to each grant, whatever that amount is, and then, ultimately, to the direct cost for each grant, whatever that amount is, and then, ultimately it should equal the total of that indirect cost pool. That \$10,000 will be charged to each grant at 10% and, ultimately, that will account for the entire \$10,000.

There are different types of indirect cost rates. This isn't nearly as applicable to the HUD grant unless you have a NICRA. None of this applies to the 10% de minimis rate. If you're here mainly listening for that, this does not apply. This only applies to negotiated indirect cost rate agreements where you could have different rates.

So, what happens is sometimes NICRAs, they should be negotiated periodically, usually annually, but sometimes they're not. So, what you find out is that you have different rates at different points that are being used. So, you may have a billing rate, and that may be the rate that's in your actual grant agreement.

Let's say that your grant agreement includes indirect costs. It told you when you submitted the budget and it was approved that you put in a rate of 38% of your indirect costs and once they approved that budget that became your billing rate because that was the rate that was stated in the award that you were allowed and approved. You'll use that rate throughout unless directed otherwise by whoever your awardee is or your cognizant agency.

A lot of times NICRA will have a provisional rate. This is a temporary indirect rate that usually hasn't been audited, or they're still in negotiations, or sometimes it could be that they haven't gotten around to negotiating a new rate so you'll use this provisional rate until it's fully negotiated or fully audited. That's usually over a defined period of time, and it says it in the NICRA, when it's applicable.

The final rate, which is also in the NICRA, it will say if it's a final rate, that means that that rate has been negotiated and/or audited, and this is the final rate based on actual costs. One of the things we have to remember about provisional rate is provisional is usually based on projections, you're looking at what you plan to do the next period, or what you plan to do the next operating cycle. So, it's not based on actual costs.

Your final rate means this is at the year-end, and you've done your financials, and you've done your audit, and then you computed your indirect rates based on actual costs. They're the rates that are usually negotiated as final rates. Sometimes you get 10% de minimis as a pre-determined rate. It's negotiated by OMB, but that's the concept of a pre-determined rate. Both parties just agree that, we might have a 40% NICRA, but we're only going to build 8% under this particular grant for whatever reason. That's a negotiated rate.

Then you can have carry forward rates that can vary depending on the budget and obligations of funds, but that's not normally a rate we'll see for grants of this size under the HUD Housing Counseling grant.

So, remember in the formula to compute the indirect cost rate we had a pool over a base. So, we talked about the pools, the pools, the numerator in that is whether it's facilities cost or whether it's administrative cost. If you're small, you might just combine them all together and actually they're just those costs that are not direct. That's the pool of expenses that you're talking about; that's the numerator.



What we're talking about here is the denominator, the base. So, we know what the pool is, now we have to figure out what the base is, and these are the most common allocation bases; direct salaries and wages including or excluding all fringe benefits. Notice everything here is direct. You're only—the issue is what—if you're including all of your direct cost or only certain direct cost. And, it's direct cost across the board for all grants.

You just don't put direct costs for HUD, it's all of you cumulative direct costs, your cumulative direct wages and fringe benefits; or it's cumulative wages including compensated leave which is vacation, holiday, sick pay and those other things. And, it's but excluding all other benefits. Sometimes the base, they'll exclude the other benefits and just include compensated leave.

The third base, which is the modified total direct cost base, this is the only allowable base for the 10% de minimis rate to be applied. If you're going to use the 10% de minimis rate, this is the only base that you can use. Now, the great thing about this is nobody's asking you to compute this. What we're really saying is that you just have to recognize that when you're applying this rate, you can only apply it to this modified total direct cost which is your salaries, your fringe benefits, materials and supplies, services, travel, and sub-awards up to \$25,000 each, or all sub-awards.

So, if you're a parent, and you have some sub-award grantees that you've awarded more than \$25,000, you have to exclude any amount per sub-award over \$25,000. So, that's why sometimes when you're putting together your budget, you may have to show your computation of the modified total direct cost to make sure that you're not including any cost that should not be. So, when you're applying that 10%, that's what you have to make sure, that whatever total you multiply that 10% by, it should only include either salaries, fringe benefits, not either, it can include all of salaries and wages, fringe benefits, material supplies, services, travels, and sub-awards up to \$25,000.

So, if you've included equipment in your budget for whatever reasons, you have to exclude it. You have to subtract it from the modified total direct cost and then apply the 10%.

If you included rent, and although I did explain how rent could kind of go both ways, the reality is, it's not acceptable under the modified total direct cost bases, which is the OMB required base for 10%. So, that means you

would have to exclude that and then multiply the 10% times the total direct cost.

The good thing about the 10% is you don't have to figure out the allocation basis, and you don't even have to really compute the rate; you just have to know how to apply that 10%.

I'm going to take some—are there any questions? Now, I hesitate. Okay.

W Does HUD approve indirect cost rates?

Robin The question is, does HUD approve indirect cost rates? What OMB says is that the agency with whom you have the largest—the Federal Government agency with whom you have the largest grant is, ultimately, the one that you're supposed to go and get your approval from. Does HUD approve them? Yes. Certain grants have certain divisions, have certain teams that they have in place to approve or to negotiate as a cognizant agency these grants.

Does the Housing Counseling grant have a specific team that can negotiate indirect rates? And I'll stand corrected on this, I'm pretty sure of it, not at this time. However, if you wish, you can request through your HUD POC that they negotiate the indirect cost rate and at that point they will send it through the channels, or they'll send it to the appropriate personnel and, ultimately, you'll get a response from them.

But, remember, HUD has to be, or it should be, your largest federal agency from which you've received an award. If you have awards from other federal agencies that are much larger, you're supposed to request that they negotiate the rate with you.

W Can a non-profit funded by a local government use a cost allocation plan?

Robin It depends on what you mean by funded. If you're a part of the local—funding by a local, no. If you're a part of the local—sometimes I've seen where there's a—I don't want to say affiliate, that's not, like, quasi-organizations where they're controlled to a certain extent by a local organization, but funding does not determine your use of the cost allocation. You have to be set up or a part of a local organization, a part of the structure of that local organization. So, from a funding perspective, no.

W Can building maintenance be considered direct and divided among programs?

Robin Okay. I'm going to go back because I see this—I'm just going to do it real quick. Because there are two factors. If you are negotiating—if you are pursuing a negotiated indirect cost agreement then I would say, potentially, yes; you could negotiate for building maintenance to be included in your—as a direct expense. Now, remember, you're going to have to have an allocation methodology which you will have to support as far as with documentation and showing how you came up with this allocation and how that allocation was appropriately applied.

However, for the 10% de minimis application, you cannot include building maintenance. So, yes, if you're in a negotiation for indirect if you have an allocation methodology that's approved with your cognizant agency. But, absolutely not if you're going to attempt to apply that 10% de minimis rate.

W How often should indirect cost rates be reviewed as a sub-award?

Robin The next question, I'm sorry, was how often should –

W Should the indirect cost rate—

Robin Should the indirect cost rate be negotiated.

W As a sub-award.

Robin As a sub-awardee. So, because yes. If you are a parent—so, the question again just—I'm going to put it all together. How often should a sub-awardee negotiate an indirect cost rate with a parent? That's the scenario we're talking about.

There are a couple of factors there. One, parents, you have to understand that you are required as a pass-through for the federal to negotiate these indirect cost rates. If a sub-award proposed, you should have a vehicle or a venue to negotiate indirect cost rates and/or allow them to use the 10% de minimis rate.

Generally, rates should be negotiated on an annual basis. Realistically, rates are negotiated every two to three years. You should be computing your rates every year and submitting those rates to the parent as a sub-

award whether you've gone into formal negotiations or not. It's your [audio disruption] continuously compute your rates and provide that information if, in fact, you're in some kind of negotiated indirect cost rate agreement with your parent.

However, realistically, negotiations should happen no more than three years. I think we just had—under the OMB, they just gave you a one-time exception to extend or negotiate indirect cost rates for up to four years. So, that kind of gives you an indication of, reasonably, they want it done sooner rather than later. And, that's only a one-time can you take advantage of that exception.

W From your example on Page 19, are you saying that 10% would be charged to each grant direct cost to reach up the \$10,000 of the indirect cost pool?

Robin Okay, I'm going to try to—can I see that question so I can read it? I'm probably not going to get to all of these questions. Okay, I'll see all the questions. It's really hard for me to repeat that question.

From your example on Page 19, are you saying that 10% would be charged to each grant's direct cost, so modified total direct cost, to recapture the total \$10,000? Absolutely, but it's not that it will be applied to each grant's direct cost, it will be applied to whatever the base was determined to be for that grant.

So, if your base was direct cost which includes salaries, and fringe benefits, then it would be applied to that. So, whatever you use as your base in coming up with the actual rate, you apply that 10% but the goal is to spread that \$10,000 out equally between each grant based on using that rate. That's why you use the formula that way.

What I'm going to do so I can get through is we won't have access to these questions after we leave, we will no longer see them. Please, please, please send your questions, if you can, to the—and I'll repeat it at the end of this slide. I probably won't take any other questions so I can get through. But, also, if there's any way that we can get these questions, we'll work with Jane to see if we can get your questions because we do want to be responsive.

I do want to say that this whole concept is not something—the indirect cost rate is not something that you can generally grasp in an hour. It's

something that, generally, it makes sense more to you as you continue or as you hear it more. Actually, it can make a lot more sense when you're able to look at your particular organization, compute the rate, and then apply—see how you apply it. But, this is just an introduction.

We may do a follow-up where we do more of actual computation. The examples will really show you how you take the rate and then apply it to the cost pool, and then apply it to each of the grants. But, in an hour session, we're just trying to, right now, stick to the basics and the overriding principles.

Okay. So, methods to compute. There are three basic methods and, as I said, if you're using the 10% de minimis rate, this does not apply because you're not actually computing any rates. The OMB has basically said we're giving you that. But, understand that you can only use the 10% de minimis rate if you've never had a negotiated indirect cost rate agreement.

For some of your organizations that have been out here for a while, that means you need to do your research and your due diligence to make sure that there are no prior negotiated rates that may be expired or they didn't get renegotiated. Because if you've ever had a NICRA negotiated indirect cost rate agreement, you cannot use that 10% de minimis rate.

The three basic methods are simplified, multiple rate, and direct allocation. The simplified gets about as simple as you can. You take the total indirect cost, so that means any cost that you didn't assign as direct to a particular grant or a project, that goes in the pool and you divide it by your total direct cost. It's that simple, and it becomes your indirect cost rate. So, for a lot of the smaller organizations that's very—it's pretty straightforward.

There are a lot of different iterations of a multiple rate, but the most basic multiple rate, if you say okay, I want to pull my fringe benefits out because a lot of you will compute your fringe benefits rate. So, once you've computed your fringe benefits rate, then you're going to compute your other rate—your indirect cost rate separately. So, when you do your fringe benefits rates you're going to take your total fringe benefits, and that's assuming you know what fringe benefits are, and then you're going to divide it by your total labor, direct and indirect. That's going to give you your fringe benefits rate.

That rate is—a lot of time I do know that for the HUD Housing Counseling grant, you do not charge 100% of your fringe benefits rates. Some people just charge, they may just say we're going to charge the compensated leave or the paid time off, or we're going to just charge certain elements of it because, generally, that fringe benefit rate may take the actual total rate for that labor category to be such that it would be too high for you to be able to perform the work you need to for HUD. We've seen it a lot where people have actually charged less than their actual computed fringe benefits rates.

Once you've done your fringe rate, then you take your total overhead or facilities and G&A cost, you put them together, and then you divide them by your total direct cost base. Now, you have a fringe rate and your indirect cost rate.

The thing about the simplified method was that it assumed that the fringe was included in that total indirect cost pool. So, it was—but a lot of organizations may not have a lot of fringe, other than employer share of FICA, and Medicare, and Unemployment, there's really not a lot there so it didn't make sense to compute a whole separate indirect cost rate for fringe because once you took out fringe there wouldn't of been that much left to account for. That's when it makes sense to include it all in one rate.

These are basic rates. Once again, the 10% de minimis, you're not computing this. You're allowed to use just your 10%. Now, I know this slide is overwhelming, but some organizations use a direct allocation method. I've seen it more on parents where, basically, every element of—you try to charge every element of cost to a grant. So, that means for your accounting department, you all are tracking hours per accountant that they are charging to a grant to do the invoice, and to do the payroll, and then based on whatever that percentage is, the total percentage of the accounting salaries are then—you take that percentage times the total salaries and you allocate accounting salaries to each grant. That is very complicated.

That's when I said that there is the concept of direct allocation so that when you have a direct allocation method, everything is a direct cost. You don't have an indirect cost rate. And, I've seen it myself; I did have one agency that said we do direct allocation, but they still had an indirect cost rate. You can't have both.

If you're doing a direct allocation method, you're basically saying we're taking every element of cost, and we're figuring out by some measurement, whether it's by hours, whether it's by square footage, whether it's by usage, if it's the printer, or if it's the telephone and you're tracking every telephone call, but you have all of these systems set up to track every element of cost so that you're charging it all direct. So, you shouldn't have indirect. That's what the direct allocation method is.

Some of the most common indirect cost problems is inadequate timekeeping systems. It's not clear—sometimes only direct staff are charging time—are using time sheets and personal activity reporting. Remember what I said, everything has to be adequately documented. If you want to include personnel in your indirect cost—and this is only, once again, this is not that 10% de minimis; this is the whole NICRA negotiated indirect cost rate agreement, you want to make sure that all personnel are charging—have time sheets and have personal activity reporting so that they can be included in your indirect cost.

Inconsistent treatment and specific identification of cost, I think we've talked about that and how you really have to understand the difference between direct and indirect costs, and how you have to make sure that you're charging any direct costs to every project, not just on the HUD project but all of them. It has to be consistent application.

Failure to exclude unallowable activities. Not understanding what's unallowable so, therefore, you're including it in that indirect cost pool. You're not properly offsetting credits instead of offsetting them against the original expense or cost account that you charge it to, you're treating it as income.

Unacceptable indirect cost allocation basis; you're including things in your modified—this is a 10%, this does relate to 10% de minimis rate as well, though. You're including things in your modified total direct cost basis that should not be. You're using modified total direct cost and using that base you're not supposed to include certain things.

Failure to exclude expressly as unallowable. Notice that this is saying cost and the prior bullet said unallowable activities. Any activities associated with an unallowable cost are also unallowable. So if you remember on the unallowable, they said lobbying and political activities, and I would bring this up after the Iowa caucus, but if you somehow participate in a lobbying or activity event, let's say you went to a luncheon during the work day.

When you do your timesheet, you have to be able to clearly show, clearly segregate that that was unallowable.

So that for any time that you charged for that and the associated payroll costs would not be included, really as your direct or indirect. It would be totally segregated as an unallowable activity. So it's not just the cost but any activity associated with the cost.

Failure to eliminate some—enter in some do tos and some do froms and then the budget limitations are unsupported. You don't have that information. I don't spend a lot of time on the cost allocation plan other than to say state and local governments and public assistance programs are the only ones that can really have a cost allocation plan,

This plan, too, has to be negotiated, it has to be approved and it's a detailed plan. It's just really like the direct allocation method that we talked about where every cost is allocated to grants and contracts and things of that nature.

So the cost allocation versus cost reimbursement. First of all, and I guess to clarify this, two different principles. Cost reimbursement has to deal with how you get your funding or how you receive monies from the government.

Your cost allocation plan is really telling the government how you're allocating the cost to the particular grant so that they can reimburse you, so what the cost allocation is based on whatever the approved plan is and cost reimbursement's based on actually what you spent. The allocation is based on a plan with methodology, reimbursement is based on actual expenditures and actual cost.

And this is for the cost allocation just like the indirect cost rate, you've got the same concepts, you've got simplified, you have multiple allocations where you have all these different programs so you set up as allocation methodologies that are based on certain programs benefitting versus what we call cost centers with certain areas.

And the indirect cost of pools and they're allocated to direct so that's anonymous to our indirect cost, multiple indirect rate approach. And then, of course, your direct allocation where basically, once again, you're taking every element of cost and you're coming up with the methodology and



you're assigning all of it to the grants and the cost centers and that's where you see the bullet various bases.

So you're determining a unit of measure, whether it's square footage for a space, whether it's hours for labor, whether it's usage for equipment or printers and things of that nature.

To allocate means you're assigning cost to a certain job. Classifying is showing how you're grouping the costs together. So when you're classifying you're putting all the costs in light groups so you're classifying transactions into the various expense accounts.

Allocating is when you're determining which one of those really classifications those costs should go to—whether it should have been a direct or an indirect, whether it should have been to this grant versus that grant; that's after you've classified and grouped those transactions together.

I think we've made it clear versus direct versus indirect. Same treatment under cost allocation plan as it is under the indirect cost rate. One of those key issues—you've got to have a cost policy statement. Just like with the indirect cost rate, you're supposed to have cost policies.

That tells the user or tells the third party how you're allocating your costs in its cost allocation plan. That is critical because you use that plan or the policies to then go analyze the allocation to make sure it was applied correctly.

The whole implementing of the 10% is great, I think I've kind of—I hope I've clarified a lot of that, at least on understanding what that means. You do not have to computerate. All you're really looking at is, one, making sure you meet the criteria. You've never received a rate.

You have to use this rate indefinitely. You have to comply with the factors affecting allowability, which we went over, and once elected you have to use it for all federal awards until you get a negotiated rate.

So you have to use it across the board for all federal awards, you can't pick and choose. So if you're using a 10% de minimis rate under another federal award, you have to use it under this federal award as well.

OHC's implementation. The submission requirement is just really you all making it clear or showing how you're applying it to the modified total direct rate. You do have to do the certifications that's in subpart 200.415 but these are the starting certifications that you have to do as a part of your grant award package.

So when you get your award notices, these are all the certifications that you're already assigned to; that you already have to include. Some of our frequently asked questions, "What do we do if some grant contracts do not provide for any indirect costs or provide for indirect cost rates that are lower than those established provisional final rates?"

All indirect costs using the approved rate must be allocated to all grants and contracts. Any allocable indirect cost that exceeds any administrative or statutory restrictions on a specific federal grant may not be shifted to other federal grants unless specifically authorized.

So pretty much if they won't allow you to charge it, you can't but you can't then try to shift those indirect costs to another grant to compensate for the fact that this particular grant won't allow you to charge it.

"What agency approves and negotiates rates?" I answered this as one of the Q&As but this give you the reference if you didn't know this. Negotiation and approved under non-profit organizations negotiation approval rates—unless different arrangements are agreed to by federal agencies, the federal agencies with the largest dollar value of federal awards with an organization will be designated as a cognizant re-indirect cost.

So once this is signed from a particular non-profit, the signer will not be changed unless there is a shift in dollar value. So that's how it's determined what agency approves and negotiates your indirect rate and that's the OMB reference for your information.

This was a question. "Does HUD negotiate a direct rate?" HUD has an agreement with HHS under which HHS will review indirect cost rate proposals on HUD's behalf when approval of the rate is required. Remember, HUD has to be the agency which gives the largest award, federal award. So if they're not then you should be negotiating with another federal agency. Please note that there is a large backlog.

“What steps do I need to take to get a negotiated indirect rate agreement?”  
As I said, notify your HUD POC, they’ll assign it to the appropriate individuals at HHS and it’ll proceed from there, but as I indicated before, there is a large backlog.

Okay, “If we accept the de minimis rate, would we now have to accept this rate for all federal awards?” I already answered that. Yes, but this give you the actual reference so you know which part of the OMB says it, but if you do it with one you have to do it with the others and definitely until you actually negotiate, get into a NICRA with a federal agency.

“Can grantees charge insurance equipment or similar costs as direct cost?”  
And this is generally, insurance of similar costs are treated as an indirect expense because they benefit more than one cost objective which is another way of saying they benefit more than one grant.

However, as section 200.412 of the OMB says, classification of costs—there is no universal rule so it’s up to you to justify. So if you’re getting specific insurance for some specific grant, and you can justify that if you didn’t have this grant you wouldn’t need this insurance therefore it’s direct to that grant. Then, of course, as long as you can justify that; that means that the agency or the party that you negotiated with may consider that to be an acceptable direct cost.

Guidelines, the last sentence, guidelines for the term meaning direct and indirect. Cost charge and federal awards are provided in this whole subpart so you’ll get some more information in that subpart but pretty much although there’s no universal rule, if in fact transactions are generally or commonly indirect, then you have to be prepared to justify why you would then treat them as direct.

“Can the amount of sub-awards be included in the modified total direct cost?” We talked about this earlier too. Yes, they can, up to the first \$25,000 of each award. Anything in excess of \$25,000 cannot be included. As you can see we get a lot of questions on this.

“Can sub-grantees elect to use a 10% de minimis rate? If so, does the pass through have to accept the de minimis rate?” Under the requirements for pass through entities [indiscernible] state that for a pass through entity to claim a direct rate, they must have an approved federally recognized indirect cost rate or indirect cost between the sub-recipient and the federal.

If no such rate exists, either a rate negotiated between the pass through and entity which we talked about and the sub-recipient, if they don't have a negotiated rate, they can use the de minimis rate.

So parents, your sub-recipients, if they do not have a NICRA, which are the same rules that apply to you, they can charge the de minimis rate and you have to allow it. So they can elect to charge you but the same rules apply. They have to charge it consistently, indefinitely and all those things but you have to allow them to charge that de minimis rate.

So needless to say, if you have any additional questions, if your questions haven't been answered online or through the texts and through the panel, please just copy and paste the question and resubmit it to this email, [housing.counseling@hud.gov](mailto:housing.counseling@hud.gov) and Jane and everyone from HUD will make sure the questions get to the appropriate personnel and we will respond accordingly.

Our goal is really to answer as many questions as we can. As a follow-up to this, we'll probably do another training that has more—it'll probably be more example driven. The goal of this one was to get to the general principles and the general understanding. A follow-up will be more specific to just going through examples or showing you how to apply the rate, whether it's computing the rate and then applying it or just applying the 10% rate and how that looks for your organization.

So why I thank you all for your time and your participation, hopefully we were able to answer some of your questions if not all and once again, please forward any questions to [housing.counseling@hud.gov](mailto:housing.counseling@hud.gov). Thank you for your time.

Moderator

Ladies and gentlemen, that does conclude our conference for today. We thank you for your participation and for using AT&T Executive TeleConference Service. You may now disconnect.